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AdLab
December 29, 2006

To Federal Communications Commission
From: Barry Cohen, Managing Member, AdLab Media Communications, LLC
Re: **Commentary on Radio Station Ownership Rules**

Dear Commissioners:

Not much has changed since I wrote the attached remarks to US Senator John McCain exactly four years ago—certainly not for the better. Continued consolidation of radio station ownership will only further erode localized programming, musical artists' access to airplay (witness the recent payola cases prosecuted by New York State Attorney General Eliot Spitzer), employment opportunities, quality and fairness of news reporting—and perhaps most importantly to the advertisers and their agencies—the paying consumers of commercial radio, *the ability to secure truly competitive advertising media buys.*

I have personally been involved in the broadcast industry for the past 27 years, serving as a station employee and manager, and as an ad agency principal conducting business with stations nationwide. I have delivered two workshops at the Radio Advertising Bureau's annual sales conferences, three training sessions for Interep, the largest radio station representative firm in the US and served as a panelist at the Mid-Year Radio Symposium. My book, *10 Ways to Screw Up an Ad Campaign*, (Adams Media, Avon, MA, Sept, 2006) has been used as a training manual by broadcast advertisers.

Please read the detailed summary attached. We would be happy to appear in person if there is an opportunity to do so in the New York-Philadelphia corridor. We vehemently oppose any further consolidation of radio station ownership. In fact, we urge the Commission and Congress to jointly conduct oversight hearings to explore *reducing the ownership caps to lower numbers.*

Finally, only the largest chain operators have access to ownership of the top broadcast properties in the largest markets. Continuing consolidation has only lead to these companies amassing fiscally unhealthy and irresponsible levels of debt. (See enclosed article from "Secured Debt Report".)

Respectfully submitted,

Barry H. Cohen
Managing Member
AdLab Media Communications, LLC

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List ABCDE

Subject: Fwd: RADIO CONSOLIDATION HEARINGS
Date: Thu, 30 Jan 2003 21:49:47 EST
From: DeborahTrevor@aol.com
To: John_McCain@McCain.senate.gov
CC: barry@adlabcreative.com

Dear Senator McCain:
We listened with great interest and attention to today's hearings. We thank you for conducting them. They are long overdue. It is obvious from today's proceedings that:
a. Market forces will ***not*** keep consolidation in check
b. The DOJ has simply not done its job; over-consolidation in the radio industry constitutes just as much of a monopoly as Microsoft. The Sherman Anti-trust act has been ignored, not enforced.
c. The FCC has certainly not done its job either, in controlling broadcast domination.
Furthermore, the paying customers of radio, the advertisers and their ad agency representatives, have yet another story to tell. (See my original e-mail, sent prior to the hearing.) Just as recently as yesterday, **an advertising salesperson from one of Clear Channel's New York radio stations told me "management won't let me sell you weekend commercials only, without charging you a premium."** (Weekends are typically lower demand times, with lower listenership, as well.) The net effect is this: clients like mine are forced to purchase time they can't afford--the $950. weekday minute, in order to get the $250. weekend minute. They have simply priced the smaller advertiser right out of the market.
We welcome the opportunity to tell our story. Please consider inviting us the next time you hold a hearing on this issue.
Thank you,
Barry Cohen *barry@adlabcreative.com 973-340-6200*

Subject: RADIO CONSOLIDATION HEARINGS
Date: Sat, 25 Jan 2003 00:47:20 EST
From: DeborahTrevor@aol.com
To: John_McCain@McCain.senate.gov
CC: barry@adlabcreative.com

Hon John McCain
Dear Senator McCain:

Following three years in Federal employment, I have made my career for the past 24 years in broadcast advertising. I have worked for independent broadcasters as an advertising salesman, and as a radio station manger. Currently, my partner and I operate a small advertising agency that places 100% of its clients' media budgets in radio and television.

By way of background, I am also the author of a small business advertising guide book (***TEN WAYS TO SCREW UP AN AD CAMPAIGN***, 1st Books Library, Sept, 2001). I have been a workshop presenter at the Radio Advertising Bureau, as well. The RAB has excerpted chapters from my book in their training materials. My book has been profiled in nearly all of the broadcast industry trade publications--*Radio Business Report, Radio & Records and Radio Ink...as well as Entrepreneur*. The book carries endorsements from *Business Week*, The WOR Radio Network & WCBS Newsradio, as well as *Entrepreneur*. Chapters from it appear as columns in *Floorcovering Weekly* this very month.

The continuing trend of radio ownership consolidation has destroyed our industry. We must stop--no, make that *reverse* the relaxation of ownership rules. Here are just a few of the ways consolidated ownership has hurt our country, our industry and our free enterprise system:

1. **Ownership** caps are *not* the issue. Rather, we as advertisers and their agencies (buyers of radio advertising) encounter markets where a single owner/operator controls the *majority of the top ranked stations*. This monopolistic practice forces us to buy only from that company if we want to achieve adequate audience reach for our clients. Worse yet, this lack of competition allows the controlling entity to control advertising rates.

2. **Employment** issues abound in today's consolidated broadcast environment. The practice of "voice tracking", where a large radio station group owner uses the same on-air talent for multiple stations, has substantially reduced employment opportunities in radio. The practice has challenged collective bargaining agreements, eroded pay scales, as well as demoralizing the work force.

3. **Homogenized** programming has been force-fed to an unwilling public. Our company buys radio nationwide for smaller, emerging consumer products and service companies. We invariably achieve our greatest successes for our clients when we can find "live and local" advertising opportunities. They are disappearing fast. Americans still relate to their own communities; they don't want all of the nationally syndicated programming that results from consolidation. "It doesn't play in Peoria", to borrow a phrase.

4. **News content** is now controlled by dangerously few players. In New York, for example, the #1 radio market in the U.S., both all-news radio stations are now owned by the same company. There simply is no diversity of viewpoint--the hallmark of a free press...and a free society.

5. **"Rate-flation"** is what we, the advertisers are expected to swallow. Why? To pay for the acquisition sprees of a few megalomaniacs. The more broadcast properties these large, publicly traded entities buy up, the more they raise the cost of advertising to pay for the debt service. The result: highly debt-laden companies, and a medium that has become affordable only to large, national advertisers. Just listen to the airwaves yourself; the local businesses you once heard are now conspicuously absent.

6. **Cross-ownership** with other media outlets is not the real concern. Instead, it's the cross-ownership with *other related businesses*. For example, one of our clients just entered the concert promotion business. At least two of the large radio station group owners have entered the concert business themselves. When my client advertises on their radio stations, do you think he will get the full backing of the stations? Or, will they "bury" his efforts on their airwaves in favor of the concerts they produce themselves? (We have already been told that he has to *pay a higher rate* than other types of businesses advertising on one of these stations.)

7. **"Strong-arm" tactics** have been used by the large radio station group owners. One of our clients was in the midst of running a promotion on a station involving a radio personality hosting a cruise. The promotion was directly impacted by the terror attacks of 9/11/01. The personality's spouse was afraid to travel; the on-air talent backed out. The advertiser could not possibly run the trip profitably without the station's celebrity host on board. The radio station insisted he pay the bill in full, simply because they ran the commercials. In their collection efforts, a station official threatened to "blackball" the advertiser to all of their company's stations, nationally.

8. **None of the promised benefits** from consolidation have materialized. There aren't any efficiencies achieved by dealing with one company. We constantly find ourselves having to re-apply for credit every time one of our advertisers goes on another station owned by the same company--even in the same city! Often times, we have to deal with different advertising salespeople for different stations owned by one company...in the *same building*. In an extremely time-sensitive industry, we find ourselves unable to get in contact with people to get vital information from these large broadcast entities on a timely basis.

Senator, I would be happy to have you include my remarks in any proceedings--or to accept your invitation to testify in person on this subject, if you see fit. Please feel free to contact me as follows:

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The Secured Debt Report

News, Information, and Analysis of Asset-Backed Finance for Middle Market Companies

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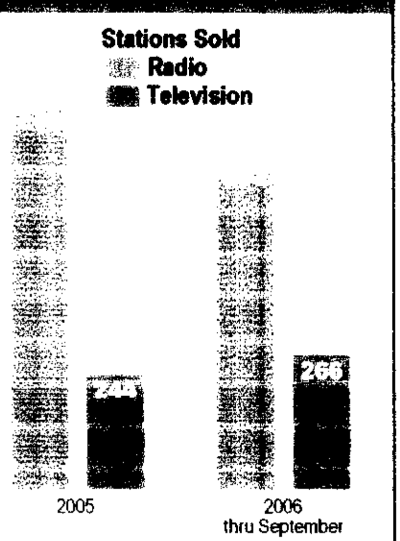

Source: Kagan Research

RADIO, TV DEALS ABOUND

Middle Market Buyers Pay High Prices With Heavy Leverage in Station Sales

by Don Dzikowski

Opportunities to finance radio and television station acquisitions are exploding in the middle market as media industry giants such as **Clear Channel Communications** and **New York Times Co.** sell off small groups of stations.

Radio broadcaster Clear Channel recently announced plans to shed 448 radio stations and 42 TV stations as part of its plan to go private in a leveraged buyout led by **Thomas H. Lee Partners** and **Bain Capital Partners**. New York Times, meanwhile, has nine TV stations on the auction block; while **Tribune Co.** is entertaining bids from private equity firms to sell 25 television stations, valued at $3.5 billion to $4 billion, in middle and larger markets. Tribune is expected to make an announcement this month on whether it will sell its TV stations and other holdings to a single buyer or in pieces to several of them.

But some market players say they will have to get over the high multiples to cash flow that radio and TV stations have fetched in recent deals before they will participate. The uncertainties raised by new technologies that compete for advertising dollars and consumers' attention, and the broadcasting industry's slow growth in recent years also raise questions about the stations' true value.

Sources say that heavy competition among private equity firms for the nine New York Times stations, located in

See **Radio & TV** *on page 9*

COVENANT LANGUAGE

The Wrong Wording Leaves Some Borrowers Vulnerable to Default

by Adam Steinhauer

The language in the bonds covenants of movie theater chain **Carmike Cinemas** and outsourcing service company **Affiliated Computer Services** don't appear very different, at least to the untrained reader.

But the subtle differences have proved important: The language of Carmike's bond covenants allowed its bondholders to declare the company in technical default on its debt earlier this year, forcing it to pay millions of dollars in extra interest. Affiliated Computer, meanwhile, has a legal defense, at least for now. It's using the language of its covenants to fight off similar claims from its own bondholders.

Aggressive hedge fund managers have been combing the Securities and Exchange Commission filings of companies like Carmike and Affiliated, searching for those that are vulnerable to technical default. The SEC's investigations of stock option granting practices and stricter accounting rules under the Sarbanes-Oxley Act have provided new angles to such

See **Covenant Language** *on page 11*

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mid-sized markets on the East Coast and in the Midwest, bodes well that sellers will continue to obtain high multiples.

The sales are predicted to generate similar multiples to those obtained by **Emmis Communications** in individual sales of most of its television portfolio over the last year that reached between 12.5x and 15x EBITDA, including station overhead.

"There's still a lot of liquidity available for radio and television deals. I think 2007 will be very active," said James Downey, president of **Pacific Media Capital**. The former **Wells Fargo** executive, who launched his Santa Monica, Calif., middle market fund in the spring, said he has almost completed a total of $100 million in mostly radio and television transactions.

Clear Channel is expected to take one to two years to fully divest of the radio and television stations. They will likely be sold to several regional players rather than to one or two large buyers. Looking at radio alone, **CBS Corp.**, which has been unloading stations since August, has sold regional clusters of stations for a total of $860 million.

Like CBS, Clear Channel is likely to sell radio properties at high multiples in a market "with more money chasing deals than I have seen in 25 years," said Larry Patrick of media broker Patrick Communications in Ellicott City, Md. "This is a lot more inventory placed in the market at once than we've seen over the last two to three years."

There have been 684 radio stations sold in the U.S. this year through September, according to Michael Buckley, an analyst at Kagan Research in Monterey, Calif. The market is on pace to top the 774 radio station sales in all of last year. For television stations, 266 changed hands during the January-through-September period. That compares to 244 TV stations sold throughout of all of 2005, Buckley said.

CBS's sales earlier this year to **Regent Communications**, **Entercom Communications**, **Peak Broadcasting**, and **Wilks Broadcast Group** achieved estimated multiples ranging from 12x to 14x EBITDA. A sale of two San Antonio radio stations for $45 million in cash to Hispanic station owner **Border Media Group** surpassed 30x, according to recent research from **Bear Stearns**.

Debt averaged 7x to 8x of the 12x-to-14x multiples with the remainder in equity, sources said. The Regent deal was the only one of the five to disclose its debt financing source: **Bank of America**.

Analysts such as Bear Stearns' Victor Miller and Christopher Ensley say that the high prices may prompt CBS to announce additional station sales in 2007. Observers are also looking at potential sales springing from the $2.7 billion merger between **Walt Disney**'s ABC Radio and **Citadel Broadcasting**, approved by the boards of both companies earlier this year. The deal will combine ABC's 22 radio stations and the ABC Radio Networks with Citadel's portfolio of 220 radio stations in mid-sized markets.

Station sales appeal to private groups such as Wilks, Peak, and Pacific, which were formed in recent years to target middle market media companies.

But high prices are likely to lead other investors to sit out. "These are too high multiples for low market [radio] stations," said G. Kevin Fechtmeyer, a managing partner with **Columbia West Capital**, which focuses partly on media and telecommunications. Scottsdale, Ariz.-based Columbia is currently staying out of the radio sector, he said. Jim Millstein, a managing director at investment bank **Lazard**, said that radio and television stations may be too highly leveraged for the risks they face that new technologies will divert people's attention and cut into advertising revenue. These technologies include iPods, the Internet, and high-definition and satellite radio.

Pacific's Downey said, however, that the multiples are still below the average 15x price/earnings ratio of the Standard & Poor's 500 Index, making the deals "a bargain."

Perry Steiner, managing director of **Arlington Capital Partners**, which runs two private equity funds focused on middle market and smaller radio stations, said it has been the slow growth of the radio and television industry in recent years, more than the high prices being paid, that has raised eyebrows. Multiples in the 12x-to-14x range are where the stations have historically traded, he said. At the same time, revenue growth has only been 1% to 3% for each of the last few years, where growth over the last three decades has averaged 5% to 6% per year. "People are struggling with the long-term prospects for both industries," Steiner said.

Arlington's three-year-old fund for small market stations, **Cherry Creek Radio**, partners with **CIT Group** and **GE Capital** for debt financing. Cherry Creek just closed on the purchase of 19 stations in four markets for $29 million from public company **Fisher Communications**.

Todd Lawley, chief executive of Peak, said that small private companies like his, may be better suited to ensure that their small stations take advantage of the new technologies than the media giants. Big companies like CBS and Clear Channel may be too focused on the larger markets. "Absolutely, we intend to enter into strategic partnerships to expand into full podcasting and streaming online to increase [advertising] revenues," Lawley said.

Tucson, Ariz.-based Peak recently formed a partnership with San Francisco investment firm **Duff Ackerman & Goodrich** to acquire middle market and smaller radio stations. Peak and Duff Ackerman purchased seven stations in Fresno, Calif., from CBS for $90 million, in a deal announced Nov. 17. It was the first of many planned transactions for the company.

Lawley, a former Citadel Broadcasting executive, also noted that focused funds like his can afford to pay high multiples by cutting expenses at the stations they buy. Peak plans to consolidate management and advertising sales staffs at the regional clusters of radio stations it will purchase in Fresno and elsewhere.

Large public companies are unloading their portfolios, at least in part, to focus on the largest and most profitable markets and to counter falling share prices. Shares of Clear Channel, the biggest owner of radio stations in the U.S., fell 60% or so since 2000 as investors turned their attention to companies offering new technologies, including satellite radio and the Internet.

Private equity funds and their debt financing partners on the other hand are less concerned than public investors about immediate growth than they are about longer-term opportunity. The P.E. funds believe they can see beyond current risks.

Radio and television advertising revenue has been flat and is only expected to rise by no more than 2% in 2007, according to Thumbnail Media Planner, a publication of advisory 2020: Marketing Communications. Buckley, of Kagan Research, said he expects such lackluster advertising revenue to result in growth for the media sector overall of about 3% to 4% in the next several years. The analysts said 2007 advertising revenue may be held back by a slowing economy, a lack of political advertising in a non-election year, and cutbacks from the troubled automotive sector.

Regional buyers of portions of Clear Channel's portfolio also face the risk that the Federal Communications Commission will not extend waivers of ownership restrictions, Buckley said. Rules passed in 2003 that limited the number of stations a company can own in a given market had been grandfathered for Clear Channel.

On the positive side, Pacific Capital's Downey said television viewership has seen modest increases in recent years and may improve further by 2009 when full digital conversion of television signals should occur.

Barry Cohen, managing member of AdLab, a media advertising and advisory based in Clifton, N.J., said he expects radio and television to fully exploit cross-advertising opportunities with the new technologies. Telephone, cable television, and Internet providers have been joining forces in recent months to start offering bundled services. "We are now in a multi-platform world, where all of the media platforms will exist side by side and be used in tandem," he said. Cohen noted that this could put smaller companies at a disadvantage, but some regional broadcasters may be able to cash in.

Cohen and other analysts said that the Internet has expanded, rather than stolen away, advertising opportunities. Radio companies have been offering streaming content online, reaching listeners in population centers normally unreachable due to reception problems from mountains or office buildings. Many publicly traded radio operators have reported Internet revenue of a few percentage points this year. The Internet Advertising Bureau and PricewaterhouseCoopers estimated last month that Internet advertising revenue reached a new record of $4.2 billion for the third quarter of 2006, a 33% increase from a year earlier.

Market players are watching whether the new media and technologies prove a threat or opportunity for the optimistic radio and television station buyers. "This is the big question mark we are interested in," said Cyrus Pardiwala, senior managing director of PricewaterhouseCoopers' corporate advisory and restructuring practice in New York. "What is driving these acquisition multiples? What is the value of these properties in the future? These questions will drive how we structure a transaction, and what is the leverage that is prudent going forward," he said.